

AGENDA ITEM #1



## CITY COUNCIL REPORT

MEETING DATE: 02/10/2009    ITEM No. 23    GOAL: Communications, Open Government

### **SUBJECT**

#### **Budget Review Commission**

### **REQUESTS**

Adopt Ordinance Nos. 3841 and 3842 establishing a Budget Review Commission and amending the rules for appointing members to the Commissions.

### **RELATED POLICIES, REFERENCES**

Scottsdale City Charter, Art. 5, Appointive Boards and Commissions; City Financial Policies

### **BACKGROUND**

On January 20, 2009 the Council voted to direct staff to prepare, for consideration at the February 10, 2009 Council meeting, an ordinance to:

- (1) Create a seven-member citizens' budget review commission for the purpose of assisting Council in reviewing operating and capital budget recommendations from the departmental and program goals perspective, as well as related financial policies.
- (2) Empower each Councilmember to appoint one member of the Commission, with the Mayor appointing one member who shall serve as chair.
- (3) Require that appointed members must have financial, accounting, business, or government management experience.

Ordinance No. 3841 actually creates the Budget Review Commission, which is tasked with reviewing:

- (A) The Operation Budget (Department and Program/Services Funding);
- (B) The Capital Budget;
- (C) The revenue forecast, taxes and fees; and
- (D) Financial Policies.

Ordinance No. 3842 amends the current code provision covering appointments to commissions. This is done to effectuate the provision of the Council resolution which calls for each Councilmember to appoint one member of the Commission, with the Mayor appointing the chair, and also to allow Councilmembers to serve on the Commission.

If Ordinance Nos. 3841 and 3842 are adopted, Council will appoint Commission members at the February 24, 2009 Regular Council meeting. Appointments will

Action Taken \_\_\_\_\_

become effective on the effective date of the ordinance, March 12, 2009, and Commission members will begin work at approximately that time. The Commission will submit a final report to Council for the 2009-2010 fiscal year in May 2009.

**ANALYSIS &  
ASSESSMENT**

The Commission will serve as an advisory body to the City Council by reviewing and making recommendations regarding operating and capital budget recommendations from the departmental program and goals perspective, as well as financial policies and revenue forecasts, taxes and fees.

**RESOURCE IMPACTS**

Existing staff would accomplish the necessary work required to support the Commission.

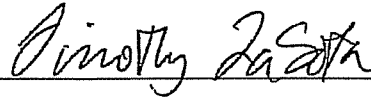
**RESPONSIBLE DEPT(S)**

Mayor's Office

**STAFF CONTACTS**

Timothy La Sota, Mayor's Chief of Staff, [tlasota@scottsdaleaz.gov](mailto:tlasota@scottsdaleaz.gov)

**SUBMITTED BY**



1/28/09

Date

**ATTACHMENTS**

1. Ordinance No. 3841
2. Ordinance No. 3842

ORDINANCE NO. 3841

AN ORDINANCE OF THE CITY OF SCOTTSDALE AMENDING  
ARTICLE V, CHAPTER 2, OF THE SCOTTSDALE REVISED  
CODE BY ADDING A NEW DIVISION 17, ESTABLISHING A  
BUDGET REVIEW COMMISSION.

WHEREAS, pursuant to Article 5, Section 1 of the Scottsdale City Charter, the Council may, by ordinance, create boards or commissions as in its judgment are required and grant to them such powers and duties as are consistent with the provisions of the charter; and

WHEREAS, the City Council seeks to create a Budget Review Commission to assist in reviewing certain aspects of the City's budget recommendation, as well as related financial policies; now, therefore,

BE IT ORDAINED by the City Council of the City of Scottsdale as follows:

Section 1. Article V, Chapter 2 of the Scottsdale Revised Code is hereby amended to add Division 17, relating to a Budget Review Commission, which shall read as follows:

**DIVISION 17. BUDGET REVIEW COMMISSION**

**SEC. 2-380. ESTABLISHED.**

**THE BUDGET REVIEW COMMISSION IS HEREBY ESTABLISHED.**

**SEC. 2-381. MEMBERSHIP.**

(a) THE BUDGET REVIEW COMMISSION SHALL BE COMPOSED OF SEVEN (7) MEMBERS. THE MEMBERS SHALL HAVE FINANCIAL, ACCOUNTING, BUSINESS, OR GOVERNMENT MANAGEMENT EXPERIENCE.

(b) EACH COUNCILMEMBER SHALL APPOINT ONE MEMBER OF THE COMMISSION, WITH THE MAYOR APPOINTING ONE MEMBER WHO SHALL SERVE AS CHAIRMAN OF THE COMMISSION. MEMBERS SHALL SERVE AT THE PLEASURE OF THE PERSON WHO APPOINTED THE MEMBER. THE MAYOR AND COUNCILMEMBERS MAY BE APPOINTED, INCLUDING BY SELF-APPOINTMENT, TO SERVE ON THE COMMISSION AS VOTING MEMBERS.

(c) THE TERMS OF OFFICE FOR MEMBERS OF THE COMMISSION SHALL BE AS PROVIDED IN SECTION 2-241, EXCEPT THAT THE TERM OF THE MAYOR OR ANY COUNCILMEMBER APPOINTED TO THE COMMISSION SHALL AUTOMATICALLY

**TERMINATE WHEN THE TERM OF OFFICE FOR MAYOR OR COUNCILMEMBER TERMINATES.**

**SEC. 2-382. PROCEDURES; RULES AND REGULATIONS.**

**THE BUDGET REVIEW COMMISSION SHALL:**

- (1) ESTABLISH RULES AND PROCEDURES (BYLAWS) THAT SHALL GOVERN ITS AFFAIRS.**
- (2) ESTABLISH THE TIME AND PLACE OF ALL REGULAR MEETINGS AND HOLD SUCH SPECIAL MEETINGS AS MAY BE CALLED PURSUANT TO SUCH REGULATIONS AND PROCEDURES AS ARE ESTABLISHED BY THE COMMISSION.**
- (3) ESTABLISH THE MANNER OF ADOPTION, AMENDMENT AND REPEAL OF RULES AND REGULATIONS (BYLAWS) OF THE COMMISSION.**

**SEC. 2-382. PURPOSE; POWERS AND DUTIES.**

**(a) IT SHALL BE THE PURPOSE OF THE BUDGET REVIEW COMMISSION TO ACT AS AN ADVISORY BODY TO THE CITY COUNCIL BY REVIEWING AND MAKING RECOMMENDATIONS ON THE PROPOSED BUDGET.**

**(b) EACH FISCAL YEAR, WITH THE ASSISTANCE OF A DESIGNEE OF THE CITY MANAGER AND PRIOR TO THE TENTATIVE BUDGET ADOPTION AND IN ACCORDANCE WITH THE BUDGET ADOPTION SCHEDULE, THE COMMISSION SHALL PROVIDE WRITTEN RECOMMENDATIONS TO THE CITY COUNCIL REGARDING THE FOLLOWING MATTERS, LISTED IN ORDER OF PRIORITY, AS TIME AND CIRCUMSTANCES PERMIT:**

- (1) OPERATING BUDGET (DEPARTMENT AND PROGRAM/SERVICES FUNDING).**
- (2) CAPITAL BUDGET.**
- (3) REVENUE FORECAST, TAXES AND FEES.**
- (4) FINANCIAL POLICIES.**

**PASSED AND ADOPTED by the City Council of the City of Scottsdale this 10<sup>th</sup> day of February, 2009.**

**ATTEST:**

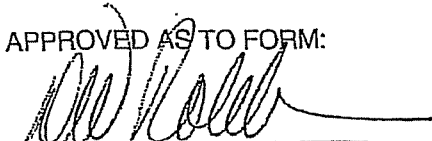
**CITY OF SCOTTSDALE, an  
Arizona municipal corporation,**

**Carolyn Jagger, City Clerk**

**W.J. "Jim" Lane, Mayor**

Ordinance No. 3841  
Page 3 of 3

APPROVED AS TO FORM:

  
Deborah Robberson, City Attorney

ORDINANCE NO. 3843

AN ORDINANCE OF THE CITY OF SCOTTSDALE AMENDING ARTICLE V, CHAPTER 2, OF THE SCOTTSDALE REVISED CODE BY ADDING A NEW DIVISION 17, ESTABLISHING A BUDGET REVIEW COMMISSION.

WHEREAS, pursuant to Article 5, Section 1 of the Scottsdale City Charter, the Council may, by ordinance, create boards or commissions as in its judgment are required and grant to them such powers and duties as are consistent with the provisions of the charter; and

WHEREAS, the City Council seeks to create a Budget Review Commission to assist in reviewing certain aspects of the City's budget recommendation, as well as related financial policies; now, therefore,

BE IT ORDAINED by the City Council of the City of Scottsdale as follows:

Section 1. Article V, Chapter 2 of the Scottsdale Revised Code is hereby amended to add Division 17, relating to a Budget Review Commission, which shall read as follows:

**DIVISION 17. BUDGET REVIEW COMMISSION**

**SEC. 2-380. ESTABLISHED.**

**THE BUDGET REVIEW COMMISSION IS HEREBY ESTABLISHED.**

**SEC. 2-381. MEMBERSHIP.**

(a) THE BUDGET REVIEW COMMISSION SHALL BE COMPOSED OF SEVEN (7) MEMBERS. THE MEMBERS SHALL HAVE FINANCIAL, ACCOUNTING, BUSINESS, OR GOVERNMENT MANAGEMENT EXPERIENCE.

(b) EACH COUNCILMEMBER SHALL APPOINT ONE MEMBER OF THE COMMISSION, WITH THE MAYOR APPOINTING ONE MEMBER WHO SHALL SERVE AS CHAIRMAN OF THE COMMISSION. MEMBERS SHALL SERVE AT THE PLEASURE OF THE PERSON WHO APPOINTED THE MEMBER.

(c) THE TERMS OF OFFICE FOR MEMBERS OF THE COMMISSION SHALL BE AS PROVIDED IN SECTION 2-241.

**SEC. 2-382. PROCEDURES; RULES AND REGULATIONS.**

**THE BUDGET REVIEW COMMISSION SHALL:**

- (1) ESTABLISH RULES AND PROCEDURES (BYLAWS) THAT SHALL GOVERN ITS AFFAIRS.
- (2) ESTABLISH THE TIME AND PLACE OF ALL REGULAR MEETINGS AND HOLD SUCH SPECIAL MEETINGS AS MAY BE CALLED PURSUANT TO SUCH REGULATIONS AND PROCEDURES AS ARE ESTABLISHED BY THE COMMISSION.

- (3) ESTABLISH THE MANNER OF ADOPTION, AMENDMENT AND REPEAL OF RULES AND REGULATIONS (BYLAWS) OF THE COMMISSION.

**SEC. 2-382. PURPOSE; POWERS AND DUTIES.**

(a) IT SHALL BE THE PURPOSE OF THE BUDGET REVIEW COMMISSION TO ACT AS AN ADVISORY BODY TO THE CITY COUNCIL BY REVIEWING AND MAKING RECOMMENDATIONS ON THE PROPOSED BUDGET.

(b) EACH FISCAL YEAR, WITH THE ASSISTANCE OF A DESIGNEE OF THE CITY MANAGER AND PRIOR TO THE TENTATIVE BUDGET ADOPTION AND IN ACCORDANCE WITH THE BUDGET ADOPTION SCHEDULE, THE COMMISSION SHALL PROVIDE WRITTEN RECOMMENDATIONS TO THE CITY COUNCIL REGARDING THE FOLLOWING MATTERS, LISTED IN ORDER OF PRIORITY, AS TIME AND CIRCUMSTANCES PERMIT:

- (1) OPERATING BUDGET (DEPARTMENT AND PROGRAM/SERVICES FUNDING).
- (2) CAPITAL BUDGET.
- (3) REVENUE FORECAST, TAXES AND FEES.
- (4) FINANCIAL POLICIES.

PASSED AND ADOPTED by the City Council of the City of Scottsdale this 10<sup>th</sup> day of February, 2009.

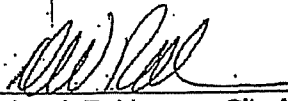
ATTEST:

CITY OF SCOTTSDALE, an  
Arizona municipal corporation,

\_\_\_\_\_  
Carolyn Jagger, City Clerk

\_\_\_\_\_  
W.J. "Jim" Lane, Mayor

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Deborah Robberson, City Attorney

**City of Scottsdale  
Budget Review Commission  
FY 2009/10 Budget Review Calendar**

<b>Meeting Date</b>	<b>Type of Meeting</b>	<b>Topics</b>
March 19 Thursday	Commission	1. Welcome and Introductions 2. Procedures, Rules, and Regulations 3. City Manager Overview 4. Financial Policies 5. Revenue Overview
March 26 Thursday	Commission	1. Capital Improvement Plan
April 2 Thursday	Commission	1. Rates and Fees 2. Property Taxes
April 7 Tuesday	Joint Meeting with City Council	1. Release / Overview of City Manager's Recommended Budget
April 20 Monday	Commission	1. Departmental Budget Review (1 of 3)
April 23 Thursday	Commission	1. Departmental Budget Review (2 of 3)
April 27 Monday	Commission	1. Departmental Budget Review (3 of 3)
April 30 Thursday	Commission	1. Finalize Commission Recommendations
May 5 Tuesday	Joint Meeting with City Council	1. Discuss Commission Recommendations
May 19 Tuesday	City Council Meeting	1 <sup>st</sup> Budget Hearing / Tentative Budget Adoption
June 2 Tuesday	City Council Meeting	2 <sup>nd</sup> Budget Hearing / Final Budget Adoption
June 16 Tuesday	City Council Meeting	Property Tax Rate Adoption



# AGENDA ITEM #4

**Subject:** Comprehensive Financial Policies as the formal guidelines for the City of Scottsdale's financial planning and management.

**Reference:**

The City Council adopt Resolution No. 7597 relating to Comprehensive Financial Policies as the formal guidelines for the City of Scottsdale's financial planning and management.

**History/Background:**

Council first adopted Comprehensive Financial Policies in conjunction with the FY 1994/95 budget. The policies encompass sound financial management as promulgated by the International City/County Management Association (ICMA), the Government Finance Officers Association (GFOA), independent bond credit rating agencies and the City's financial advisor, City Manager, and the Financial Services Department staff. And recently (April 2008), the Association of Public Treasurers certified Scottsdale's Debt Policy as meeting their recommended policies and practices.

Since their original adoption in 1994, the Comprehensive Financial Policies have served as one of the City's principle foundations upon which our long-term, multi-year financial plans are developed and managed. The Comprehensive Financial Policies have also been a significant factor in the City's achieving and maintaining a bond rating of Aaa from Moody's Investors Service, AAA from Fitch Investors Service, Inc., and AAA by Standard & Poor's Investment Service. The City's general obligation bond ratings are the highest combined rating of any city in the State of Arizona. The high bond rating results in our ability to issue debt at lower interest cost and a savings for our citizens.

Since first obtaining the triple AAA rating in 2001, Financial Services estimates bonded interest expense savings of \$25 million over the life of existing debt (not including planned debt, yet to be issued for Bond 2000, Water Sewer Enterprise and Preserve Program).

A key part of establishing and maintaining financial policies is a periodic review of the existing policies to ensure they are current and relevant to guiding the community's financial management. To achieve this objective, as part of the City's annual budget development process, the Financial Service's staff review and update the existing Comprehensive Financial Policies. This Council Action covers the staff's proposed modifications to the existing policies and continues the prudent practice of reviewing the City's Comprehensive Financial Policies on an annual basis in conjunction with the budget development.

**Analysis:**

The proposed Comprehensive Financial Policies establish a formal framework for Scottsdale's overall financial planning and management. Individual policies address five key areas of sound financial management:

- Operational Management;
- Capital Management;
- Debt Management;
- Reserves and Contingencies; and,
- Financial Reporting.

Adherence to adopted financial policies promotes sound financial planning and management of public funds. The Financial Services staff uses these policies as the basic tenets of the City's multi-year financial planning and as guidelines for preparing the budget.

Publicly adopted financial policy statements contribute greatly toward increased public confidence and accountability by government. Having an explicit policy provides a better understanding of City financial affairs to citizens. Explicit financial policies also provide clear direction to City staff concerning the diligence and stewardship with which public monies are to be managed.

Publicly adopted financial policies demonstrate to citizens, the media, the credit rating industry, and prospective investors (i.e., bond buyers) the City's ongoing commitment to sound financial management and preserving Scottsdale's fiscal integrity. Sound financial management contributes to high City bond ratings and lower borrowing costs for capital projects. Reviewing and formally adopting financial policies can improve the City's fiscal stability by helping the City's elected officials plan fiscal strategy with a thoughtful and consistent approach that promotes long-term fiscal sustainability.

The adopted financial policies have also been included in the City's annual *Financial Trends* report with a status as to our compliance for each policy. This document is discussed at the Council's fall retreat and is made available to the public through the Financial Services Department and via the City's Internet site. The adopted policies have also been included in past City Budget publications, which are also available through the Financial Services Department and the City's Internet site.

**Recommendation:**

Staff recommends adoption of the attached Comprehensive Financial Policies as the formal guidelines for the City of Scottsdale's financial planning and management.

**Staff Contact:**

Financial Services Department  
Administration Division

**Attachment:**

Resolution No. 7597

RESOLUTION NO. 7597

A RESOLUTION OF THE CITY OF SCOTTSDALE,  
ARIZONA, ESTABLISHING FINANCIAL POLICIES

WHEREAS, establishing sound financial policies and principles contribute to sound financial management, continuity in handling financial affairs and preserving the City's fiscal integrity; and

WHEREAS, publicly adopted policy statements contribute greatly to the credibility of and public and financial community confidence in the governmental organization; and

WHEREAS, financial policies establish the framework for overall fiscal planning and management; and

WHEREAS, financial policies set forth guidelines against which current performance can be measured and proposals for future programs to be evaluated.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Scottsdale as follows:

Section 1. The following comprehensive financial policies are hereby adopted:

Operating Management Policies

1. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements. In order to ensure compliance with policy, sunset provisions will be required on all grant program initiatives and incorporated into other service plans, as appropriate.
2. The budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the budget process will be discouraged.
3. Budget development will use strategic multi-year fiscal planning, conservative revenue forecasts, and modified zero-base expenditure analysis that requires every program to be justified annually in terms of meeting intended objectives ("effectiveness criteria") and in terms of value received for dollars allocated ("efficiency criteria"). The process will include a diligent review of programs by staff, management, citizens and City Council.
4. The full City Council will solicit citizen input and review the operating and capital budget recommendations from a departmental, program, and goals perspective.
5. Revenues will not be dedicated for specific purposes, unless required by law or generally accepted accounting practices (GAAP). All non-restricted revenues will be deposited in the General Fund and appropriated by the budget process.
6. Current revenues will fund current expenditures and a diversified and stable revenue system will be developed to protect programs from short-term fluctuations in any single revenue source. To ensure that Scottsdale does not become overly reliant on 'growth' revenues for operating needs, a minimum of 25% construction privilege tax revenues will be transferred annually to the Capital Improvement Program for one-time capital project use.
7. Addition of personnel will only be requested to meet program initiatives and policy directives; after service needs have been thoroughly examined and it is substantiated that additional staffing will result in increased revenue or enhanced operating efficiencies. To the extent feasible, personnel cost reductions will be achieved through attrition.
8. Enterprise (Water, Sewer, Solid Waste Management, and Airport) user fees and charges will be examined annually to ensure that they recover all direct and indirect costs of service and be approved

by the City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents. Rate adjustments for enterprise operations will be based on five-year financial plans.

9. All non-enterprise user fees and charges will be examined annually to determine the direct and indirect cost of service recovery rate. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council.
10. Development impact fees, as permitted by state law, for capital expenses attributable to new development will be reviewed annually to ensure that fees recover all direct and indirect development-related expenses and be approved by City Council. Any unfavorable balances in cost recovery will be highlighted in budget documents.
11. Capital equipment replacement will be accomplished through the use of a "rental" rate structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers, phones and copier systems). Replacement costs will be based upon equipment lifecycle financial analysis.
12. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources will be substituted only after all program priorities and alternatives are considered during the budget process.
13. Balanced revenue and expenditure forecasts will be prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast will be updated annually, focus on a three-year horizon, but include a five-year outlook.
14. Alternative means of service delivery will be evaluated to ensure that quality services are provided to our citizens at the most competitive and economical cost. Departments, in cooperation with the City Manager, will identify all activities that could be provided by another source and review options/alternatives to current service delivery. The review of service delivery alternatives and the need for the service will be performed annually or on an "opportunity" basis.
15. Cash and Investment programs will be maintained in accordance with the City Charter and the adopted investment policy and will ensure that proper controls and safeguards are maintained. City funds will be managed in a prudent and diligent manner with an emphasis on safety of principal, liquidity, and financial return on principal, in that order.
16. The City will follow an aggressive, consistent, but sensitive to the circumstances policy of collecting revenues to the limit of our ability. Collection policy goal will be for all adjusted uncollectible accounts to be no more than .5 of 1% of the total City revenue being adjusted for bad debts annually.

#### Capital Management Policies

17. A five-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which results in a capitalized asset costing more than \$25,000 and having a useful (depreciable life) of two years or more.
18. The capital improvement plan will include, in addition to current operating maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

19. Proposed capital projects will be reviewed and prioritized by a cross-departmental team regarding accurate costing (design, capital, and operating) and overall consistency with the City's goals and objectives. Financing sources will then be identified for the highest ranking projects.
20. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecast, matched to available revenue sources and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
21. Dedicated two tenths of percent (.2%) privilege tax revenue for transportation improvements will be restricted to funding the planning, design, construction and acquisition costs associated with building, renovating, or enhancing capital projects for streets, highways, traffic control, transit and aviation and transportation improvement operating costs.
22. Pay-as-you-go Capital Improvement Plan financing should account for a minimum of 25 percent of all capital improvement projects for each five-year planning period. Pay-as-you-go financing is defined as all sources of revenue other than City debt issuance, i.e., fund balance contributions, developer contributions, grants, endowments, etc.
23. Pay-as-you-go contributions up to 10% or \$500,000, whichever is less, may be authorized by City Council towards any single utility undergrounding improvement district. Any unused annual budget authorization may carryforward towards a maximum \$2 million appropriation for utility undergrounding capital projects that benefit the community as a whole.

#### Debt Management Policies

24. The City will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.
25. An analysis showing how the new issue combined with current debt impacts the City's debt capacity and conformance with City debt policies will accompany every future bond issue proposal.
26. The City will communicate, and, where appropriate, coordinate with all jurisdictions with which we share a common tax base concerning our collective plans for future debt issues.
27. For all debt security transactions, the City will utilize bond legal counsel that is familiar with municipal law to ensure that the securities are issued in compliance with the City's governing statutes and regulations. The selection of any outside bond counsel to assist in debt security transactions will be subject to the City Attorney's review and involvement.
28. City Debt Service costs (GO, MPC, HURF, Revenue Bond, McDowell Sonoran Preservation and Contractual Debt) should not exceed 25% of the City's operating revenue in order to control fixed costs and ensure expenditure flexibility. Improvement District (ID) and Community Facility District (CFD) debt service is not included in this calculation because it is paid by district property owners and is not an obligation of the general citizenry. Separate criteria have been established regarding ID and CFD debt policies.
29. General Obligation debt, which is supported by property tax revenues and grows in proportion to the City's assessed valuation and/or property tax rate increases, will be utilized as authorized by voters. Other types of voter-approved debt (e.g., water, sewer, and HURF) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).
30. General Obligation debt issuances will be managed on an annual basis to match funds to Capital Improvement Plan cashflow requirements while being sensitive to the property tax burden on citizens.

Careful management of bond issuances will allow the City to not exceed \$1.50 property tax per \$100 assessed value.

31. Municipal Property Corporation and contractual debt, which is non-voter approved, will be utilized only when a dedicated revenue source (e.g., golf course revenue, privilege tax, bed tax) can be identified to pay debt service expenses. The following considerations will be made to the question of pledging of project (facility) revenues towards debt service requirements:
  - a. The project requires monies not available from other sources.
  - b. Matching fund monies are available which may be lost if not applied for in a timely manner.
  - c. Catastrophic conditions.
  - d. The project to be financed will generate net positive revenues (i.e., the additional tax revenues generated by the project will be greater than the debt service requirements). The net revenues should not simply be positive over the life of the bonds, but must be positive each year within a reasonably short period (e.g., by the third year of debt service payments).
32. McDowell Sonoran Preservation debt service will be funded by the dedicated .35% privilege tax. The City's privilege tax to revenue bond debt service goal will be at least 1.5:1 for senior lien debt to ensure the City's ability to pay for preserve debt from this elastic revenue source.
33. Improvement District (ID) and Community Facility District (CFD) Bonds shall be permitted only when there is a general City benefit. ID and CFD bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that ID and CFD bonds will be primarily issued for existing neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, and drainage.
  - a. Improvement District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. Should the full cash value to debt ratio not meet the minimum requirements, property value may be determined by an appraisal paid for by the applicant and administered by the City. In addition, the City's cumulative improvement district debt will not exceed 5 percent of the City's secondary assessed valuation. Bonds issued to finance improvement district projects will not have maturities longer than ten years.
  - b. Community Facility District debt will be permitted only when the full cash value of the property, as reported by the Assessor's Office, to debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt and 5/1 or higher after construction of improvements. In addition, the City's cumulative facility district debt will not exceed 5 percent of the City's secondary assessed valuation. The landowner/developer shall also contribute \$.25 in public infrastructure improvement costs of each dollar of public infrastructure improvement debt to be financed by the district.
34. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below ten years.
35. A ratio of current assets to current liabilities of at least 2/1 will be maintained to ensure the City's ability to pay short-term obligations.
36. Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by City Council, or be applied to debt service payment on the bonds issued for construction of this plan.
37. Utility rates will be set, as a minimum, to ensure the ratio of revenue to debt service meets our bond indenture requirement of 1.2/1. The City goal will be to maintain a minimum ratio of utility revenue to

debt service of 1.6/1 or greater, to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes, and to ensure a balanced pay-as-you-go Capital Improvement Plan.

#### Reserve Policies

38. All fund designations and reserves will be evaluated annually for long-term adequacy and use requirements in conjunction with development of the City's balanced five year financial plan.
39. General Fund Stabilization Reserve of 10 percent of annual general governmental (General and Transportation funds) operating expenditures will be maintained for unforeseen emergencies or catastrophic impacts to the City. Funds in excess of 10 percent, but not to exceed \$5 million, may be used for economic investment in the community when justified by the financial return to the City.
40. Debt Service Reserve will be funded with secondary property taxes, levied by City Council, sufficient to pay the bonded indebtedness for General Obligation bond principal and interest. A debt service sinking fund will be maintained to account for these restricted revenues and debt payments, as well as any additional debt amounts deemed to be advisable and necessary for any public or municipal purposes. An excise tax debt reserve will be funded at no less than the annual debt service for all currently outstanding (1%) excise tax supported debt.
41. Water and Sewer Fund Reserves will be maintained to meet three objectives: (1) ensure adequate funding for operations; (2) to ensure infrastructure repair and replacement; and, (3) to provide working capital to provide level rate change for customers.
  - a. An Operating Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide sufficient expenditure flexibility during times of unusual weather resulting in variations in average consumption and associated operating expenses.
  - b. A Replacement and Extension Reserve will be maintained, per bond indenture requirements, to meet the minimum requirement of 2% of all tangible assets of the system to ensure replacement of water and sewer infrastructure.
  - c. In addition, Working Capital will be funded based upon a multi-year financial plan to provide adequate cash for water and sewer capital improvements and to level the impact of rate increases upon our customers.
42. Solid Waste Management Fund Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide contingency funding for costs associated with solid waste disposal. Costs may include site purchase, technology applications, or inter-governmental investment to maximize the value of waste disposal activities.
43. Aviation Fund Reserve will be funded not to exceed 90 days of budgeted system operating expenditures to provide contingency funding for costs associated with airport operations. Costs may include site purchase, technology applications, or inter-governmental investment to maximize the value of airport activities.
44. Self-Insurance Reserves will be maintained at a level, which, together with purchased insurance policies, will adequately indemnify the City's property, liability, and health benefit risk. A qualified actuarial firm shall be retained on an annual basis in order to recommend appropriate funding levels, which will be approved by Council.
45. Fleet Management Reserve will be maintained based upon lifecycle replacement plans to ensure adequate fund balance required for systematic replacement of fleet vehicles and operational contingencies. Operating departments will be charged for fleet operating costs per vehicle class and replacement costs spread over the useful life of the vehicles.

46. Contingency Reserves to be determined annually will be maintained to offset unanticipated revenue shortfalls and/or unexpected expenditure increases. Contingency reserves may also be used for unanticipated and/or inadequately budgeted events threatening the public health or safety. Use of contingency funds should be utilized only after all budget sources have been examined for available funds, and subject to City Council approval.

Financial Reporting Policies

47. The City's accounting and financial reporting systems will be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).
48. An annual audit will be performed by an independent public accounting firm, with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR). The independent auditor will present CAFR and discuss audit findings concerning internal controls and operational efficiencies at a public meeting.
49. The City's CAFR will be submitted to the GFOA Certification of Achievement for Excellence in Financial Reporting Program. The financial report should be in conformity with GAAP, demonstrate compliance with finance related legal and contractual provisions, disclose thoroughness and detail sufficiency, and minimize ambiguities and potentials for misleading inference.
50. The City's CAFR will also be submitted to Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) as a continuing commitment to disclose thoroughness to enable investors to make informed decisions.
51. The City's Budget will be submitted to the GFOA Distinguished Budget Presentation Program. The budget should satisfy criteria as a financial and programmatic policy document, as a comprehensive financial plan, as an operations guide for all organizational units and as a communications device for all significant budgetary issues, trends and resource choices.
52. Financial systems will maintain internal controls to monitor revenues, expenditures, and program performance on an ongoing basis.

Section 2. The Comprehensive Financial Policies adopted by this Resolution supersede any and all comprehensive financial policies previously adopted by the Mayor and City Council.

PASSED AND ADOPTED by the Mayor and Council of the City of Scottsdale this 20th day of May 2008.

CITY OF SCOTTSDALE  
A Municipal Corporation

ATTEST:

\_\_\_\_\_  
Carolyn Jagger,  
City Clerk

\_\_\_\_\_  
Mary Manross,  
Mayor

APPROVED AS TO FORM:

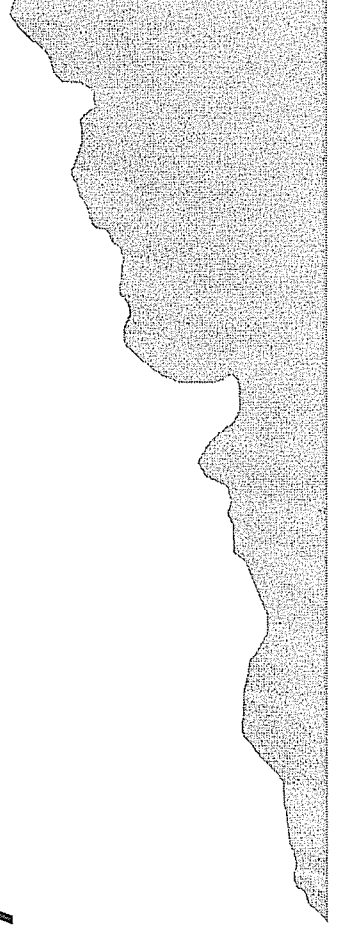
\_\_\_\_\_  
Deborah Robberson,  
City Attorney



# City of Scottsdale

## Budget Review Commission

3/19/09



# Goal

- ◆ Smaller, more sustainable organization
- ◆ Restructure to be more responsive, flexible and less subject to economic change

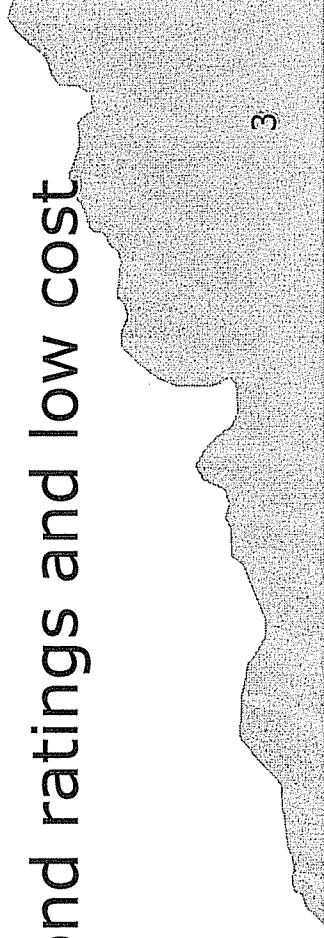


# Adopted Financial Policies

## Expected Outcomes

Developing and adopting explicit Financial Policies:

- ◆ Provides clear direction to City staff concerning the diligence and care in which public funds are to be managed
- ◆ Explicit policy provides a better understanding of City financial affairs by the public
- ◆ Adoption of financial policies demonstrates the City's commitment to sound financial management and preserving Scottsdale's fiscal integrity
- ◆ Helps ensure high City bond ratings and low cost of capital



# Adopted Financial Policies

## Five Key Areas

- ◆ Operating Management Policies
- ◆ Capital Management Policies
- ◆ Debt Management Policies
- ◆ Reserve Policies
- ◆ Financial Reporting Policies

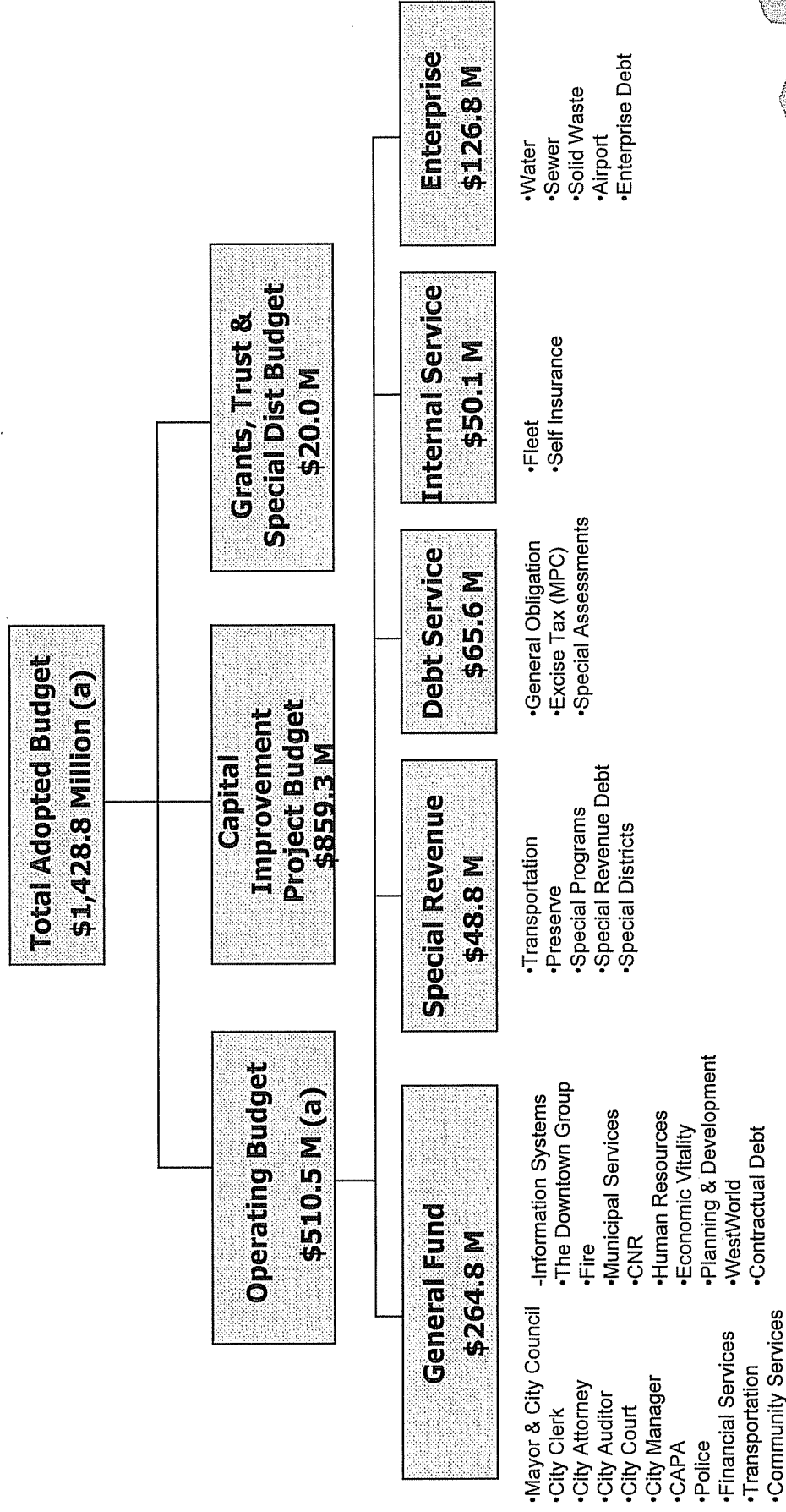


# Credit Rating Industry

## Recommended Financial Management Practices

- ◆ Fund balance reserve policy/working capital reserves (*Very Significant, Fitch Investors*)
- ◆ Establish or enhance rainy day/budget stabilization reserves. (*Top Ten Mgt. Practice, Standard & Poors*)
- ◆ Monthly or regular economic, revenue, budget review/reporting (*Significant, Top Ten Mgt. Practice*)
- ◆ Multi-year financial forecasting (*Significant*)
- ◆ Contingency planning policies (*Influential*)
- ◆ Financial Reporting & Budget Awards (*Influential*)

# FY08/09 Adopted Budget



(a) Total Adopted Budget and Total Operating Budget net of Internal Service Fund offsets of approximately \$45.6M and \$39.0M in Contingencies/Reserves.

# Separate Funds

## Governmental 'Fund' Accounting

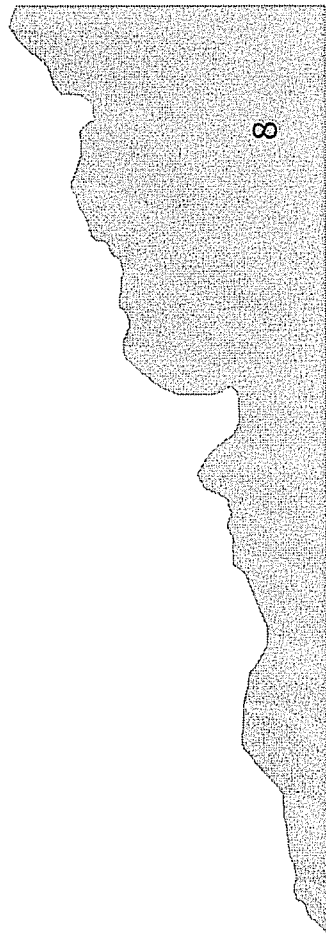
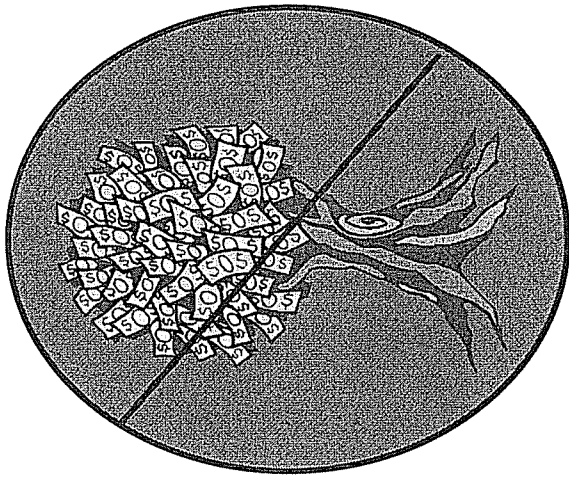
- ◆ Enterprise Funds
- ◆ Internal Service Funds
- ◆ Special Revenue Funds
- ◆ Debt Service Fund
- ◆ Capital Project Funds
- ◆ General Fund

A fund is a fiscal and accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**Fund Reserves maintained per City  
Council Adopted Financial Policies**

# Fiscal Constraints

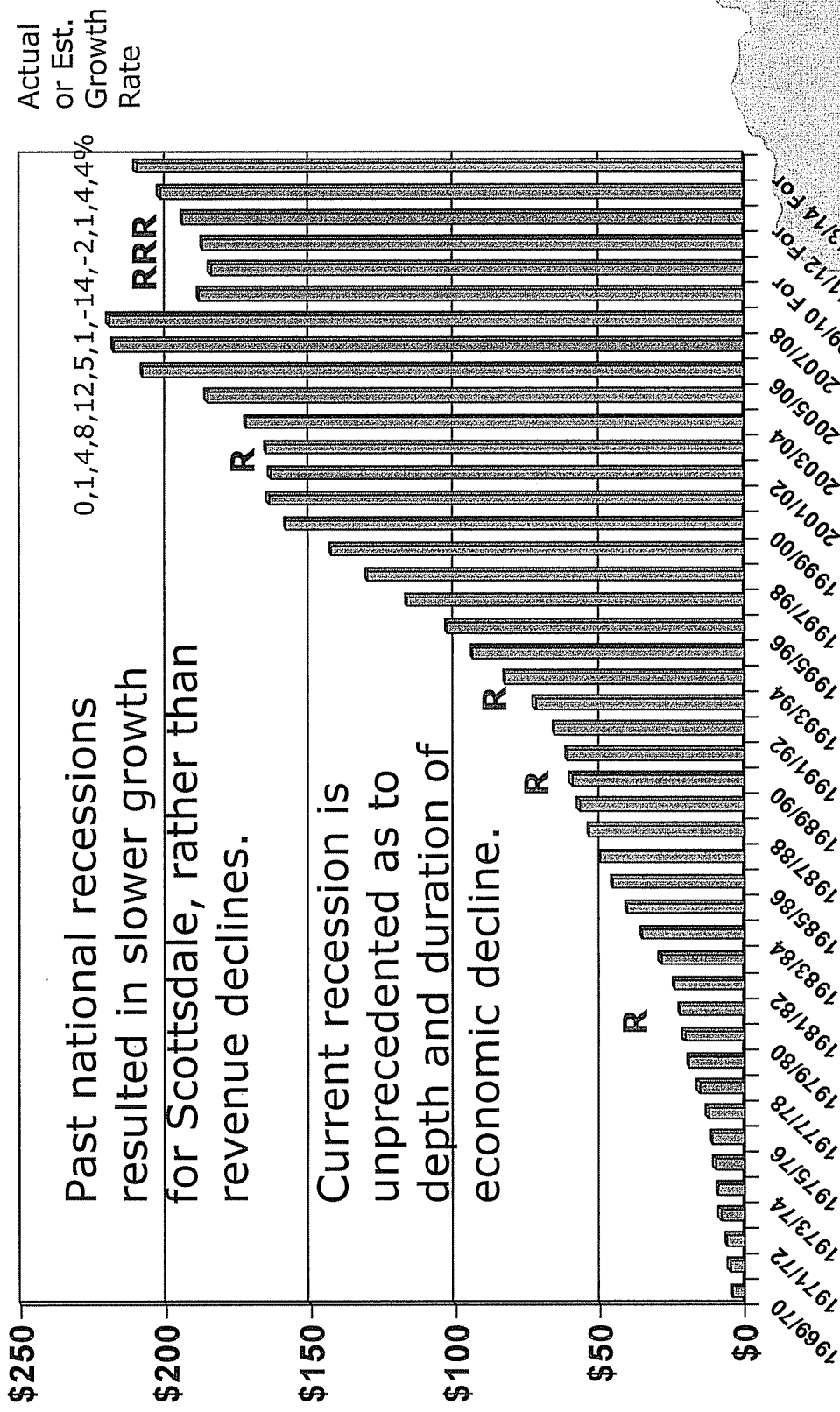
- ◆ Fund Constraints
- ◆ Reliance upon Elastic Revenue Sources
- ◆ State Shared Revenue Limit (15% & Population)





# Elastic Revenues over 30+ years

(in millions)



Average annual actual revenue growth rate = 11% . . . 9

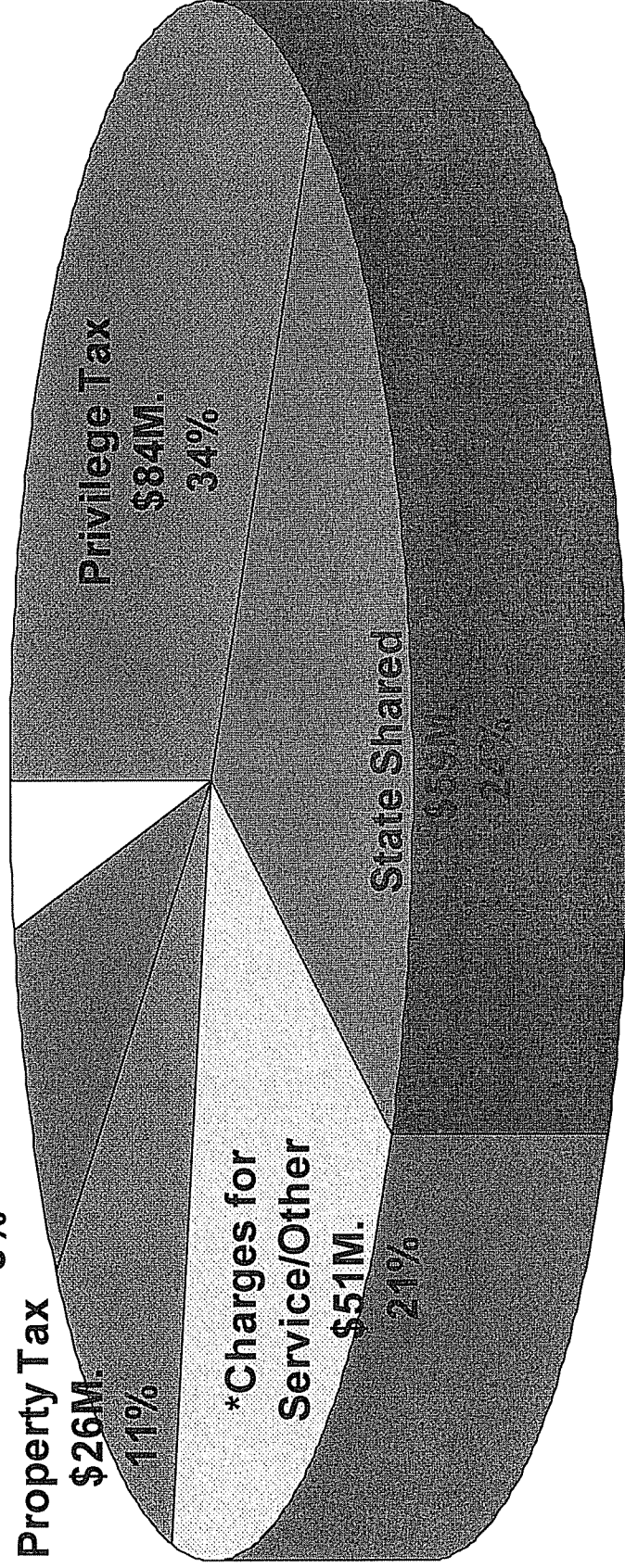
# General Fund

## \$247 M. Revenue FY 09/10 Forecast

Franchise  
Fees \$19M.  
8%

Bed Tax \$8M.  
3%

Property Tax  
\$26M.  
11%

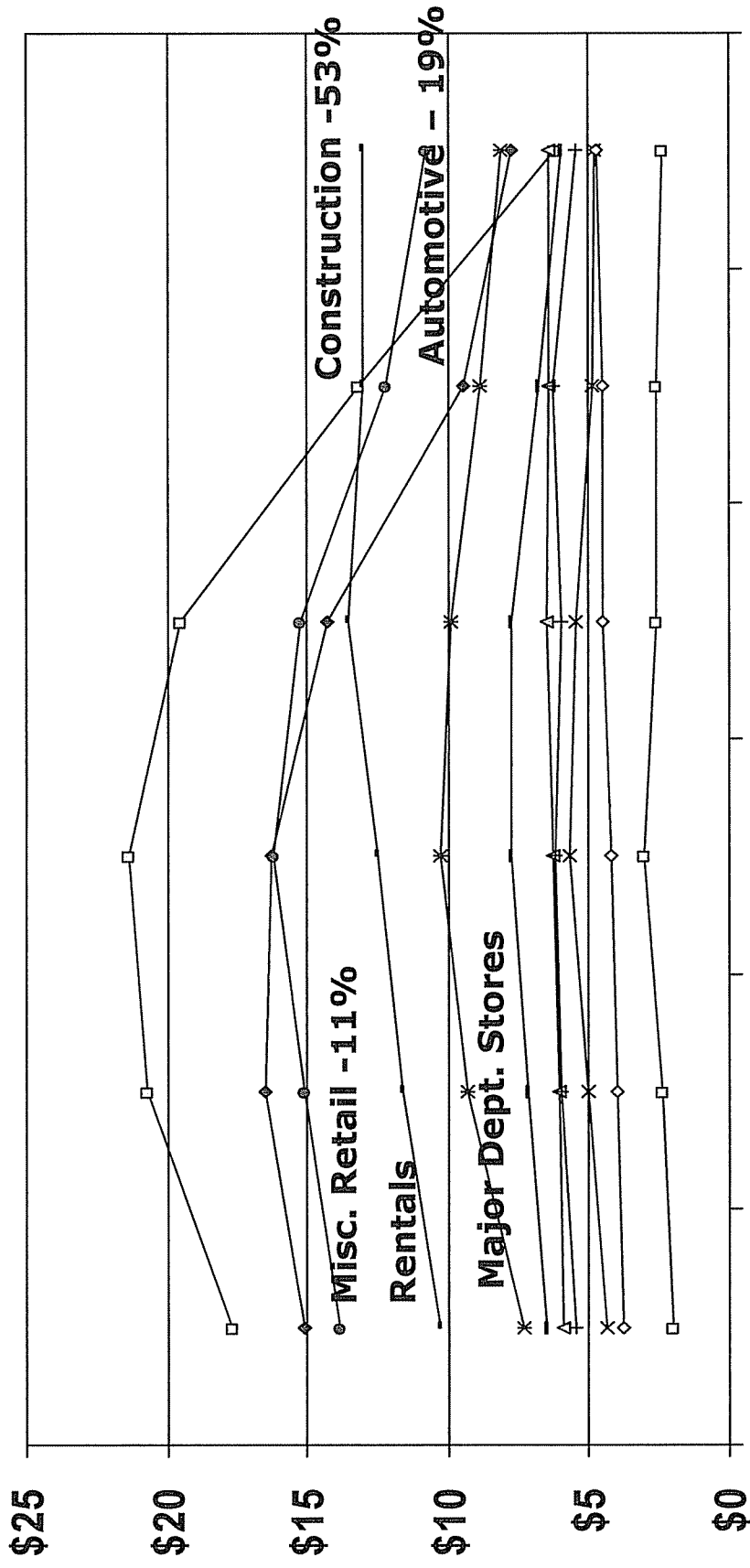


\* Includes Indirect Cost Allocation, Development fees, recreation fees, court fines, WestWorld, property rental, and interest.

**Over 60% of General Fund revenues are "elastic"... they are susceptible to economic change/recessionary forces.**

# Sales Tax by Category

(in millions)

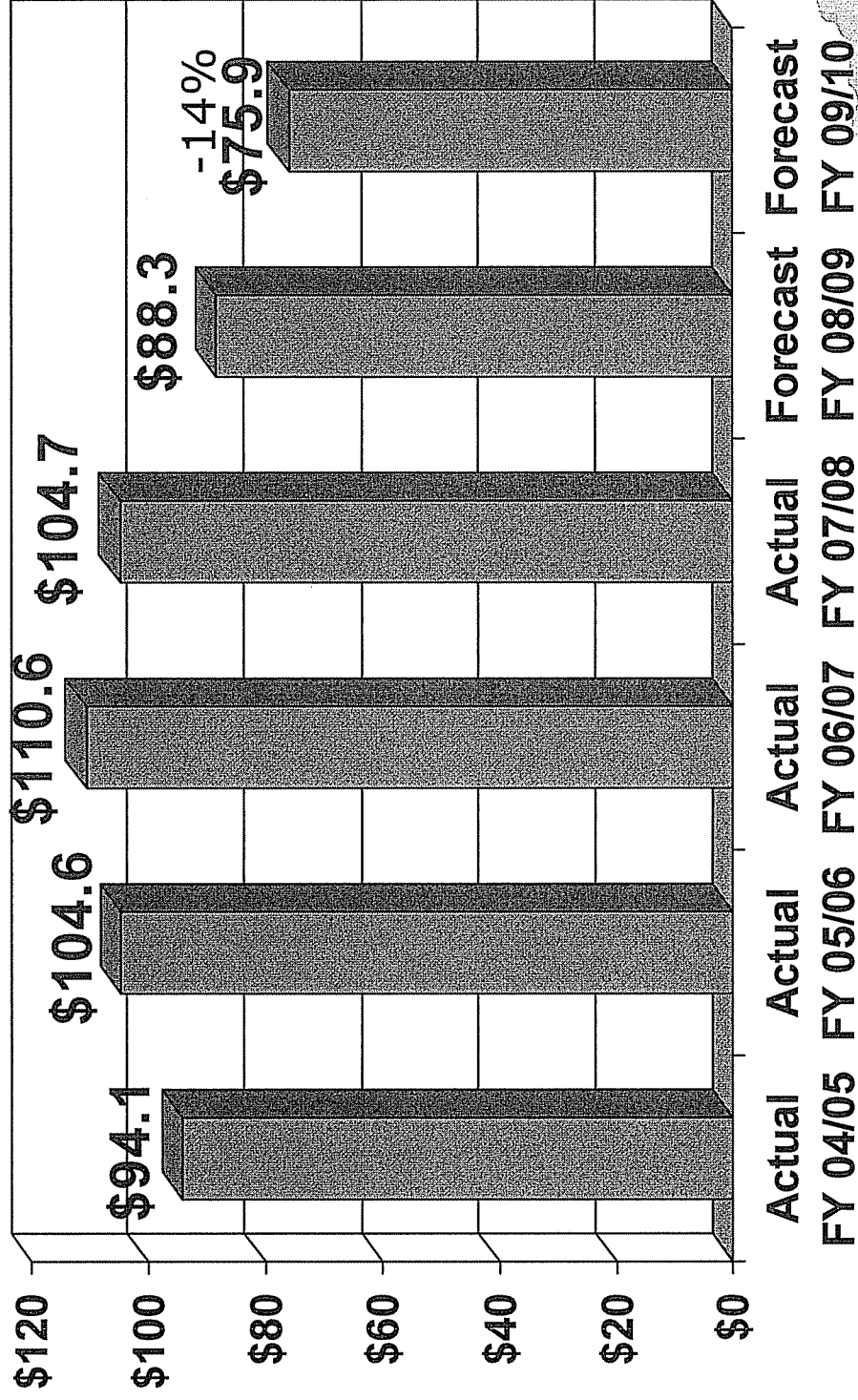


Actual FY 04/05 Actual FY 05/06 Actual FY 06/07 Actual FY 07/08 Forecast FY 08/09 Forecast FY 09/10

Aggregate change forecasted for FY09/10 = -14%

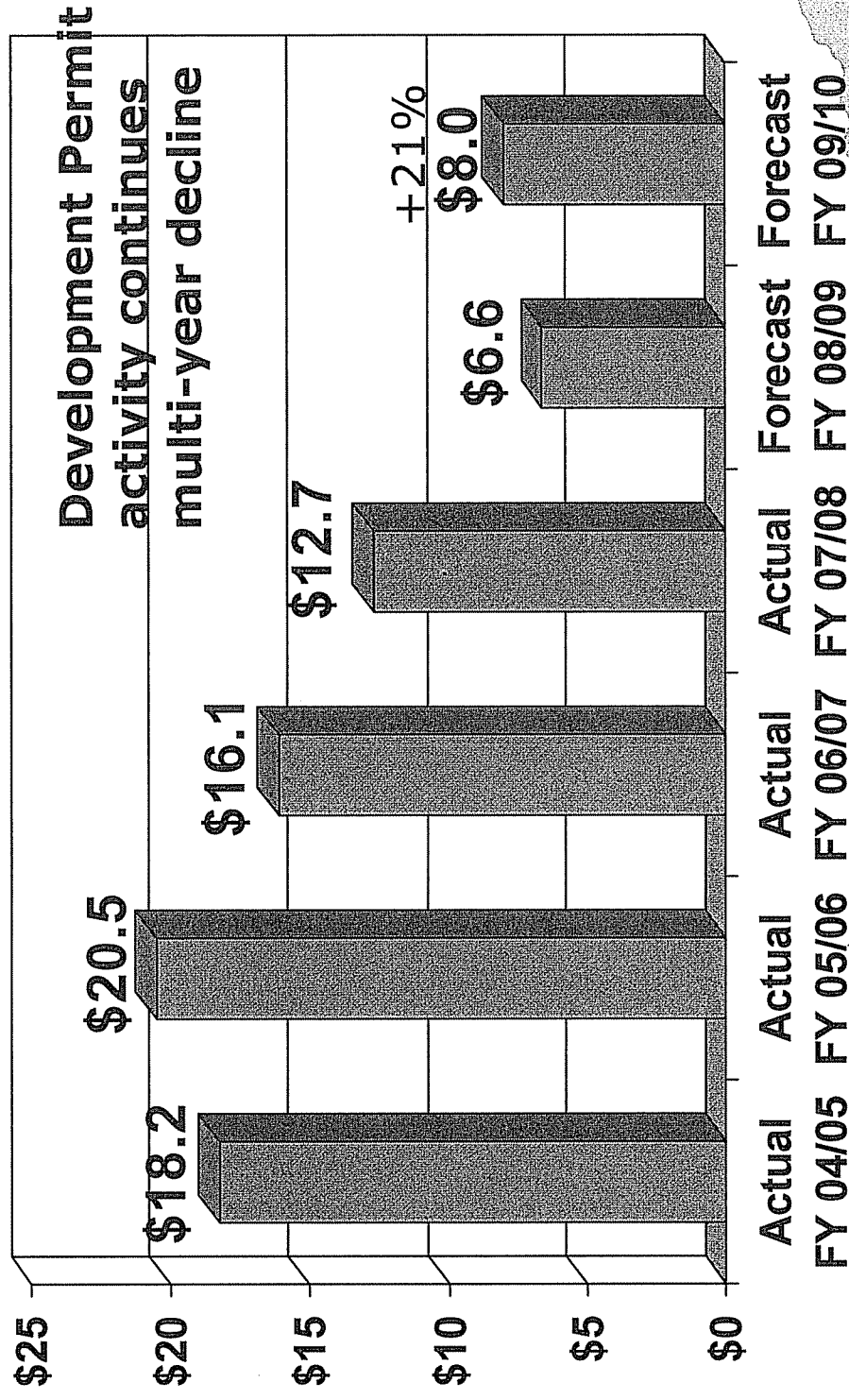
# Sales Tax

(1% portion, in millions)



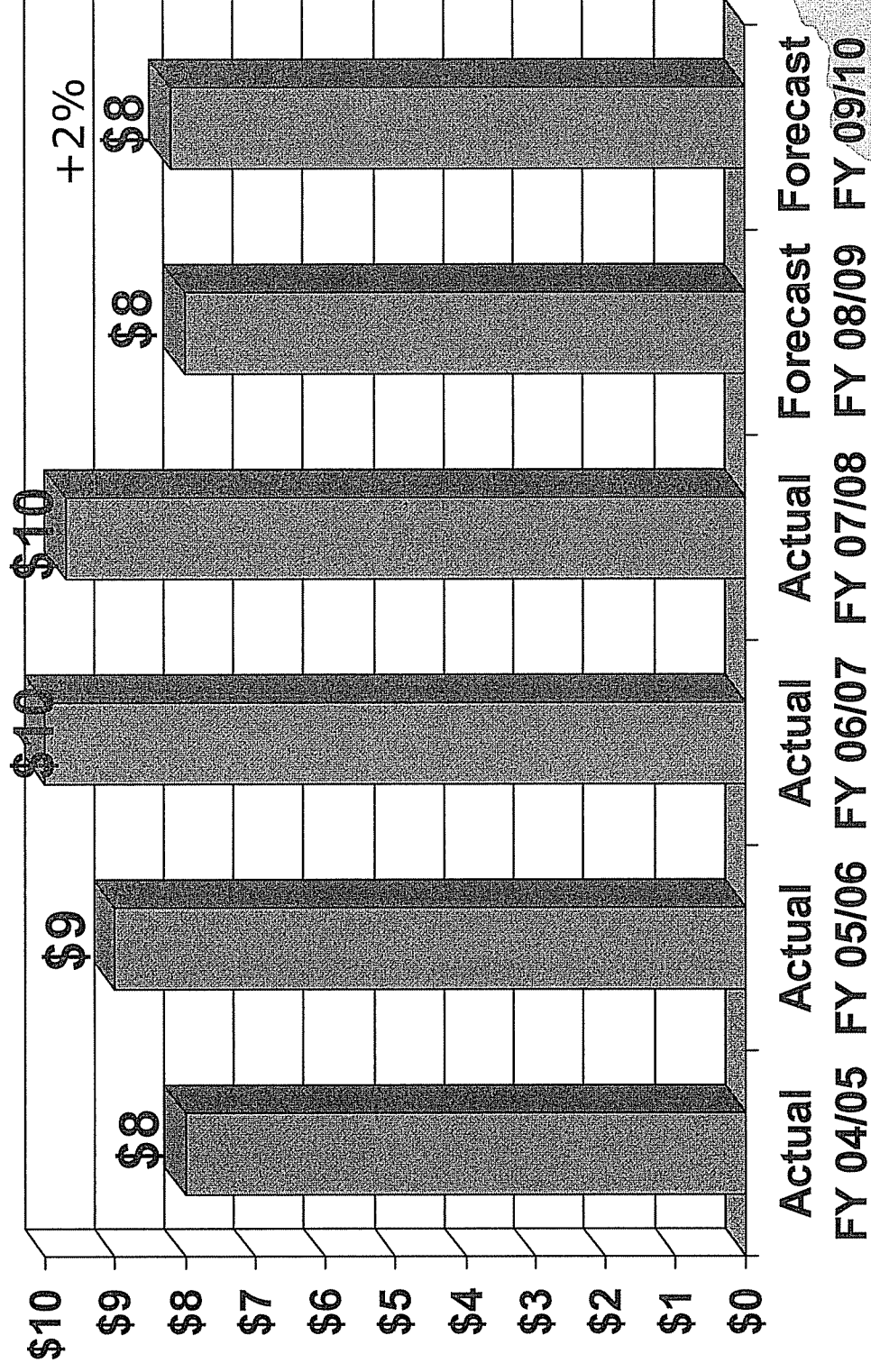
# Development Fees

(in millions)



# Bed Tax

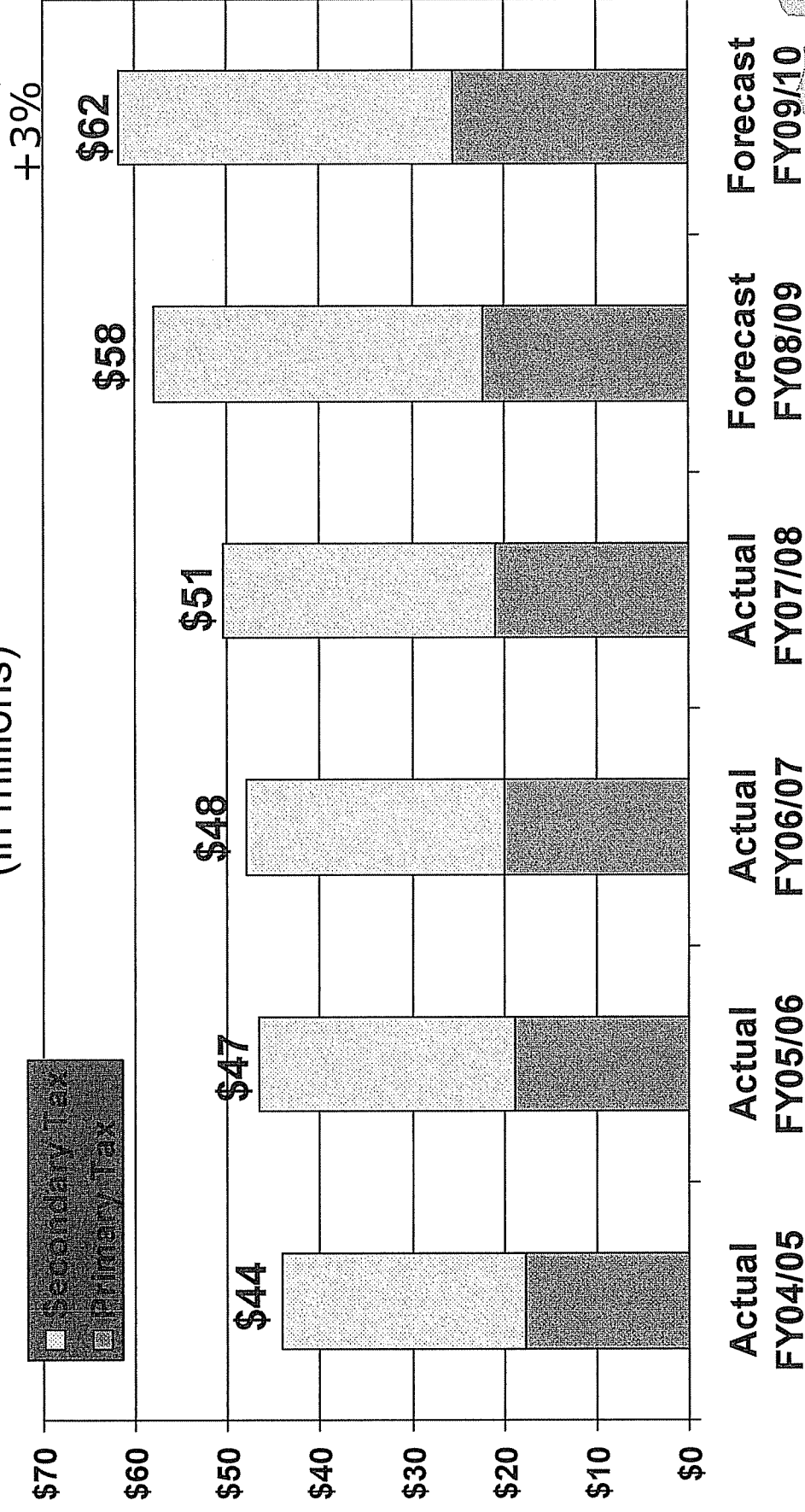
(in millions)





# Property Tax Revenues

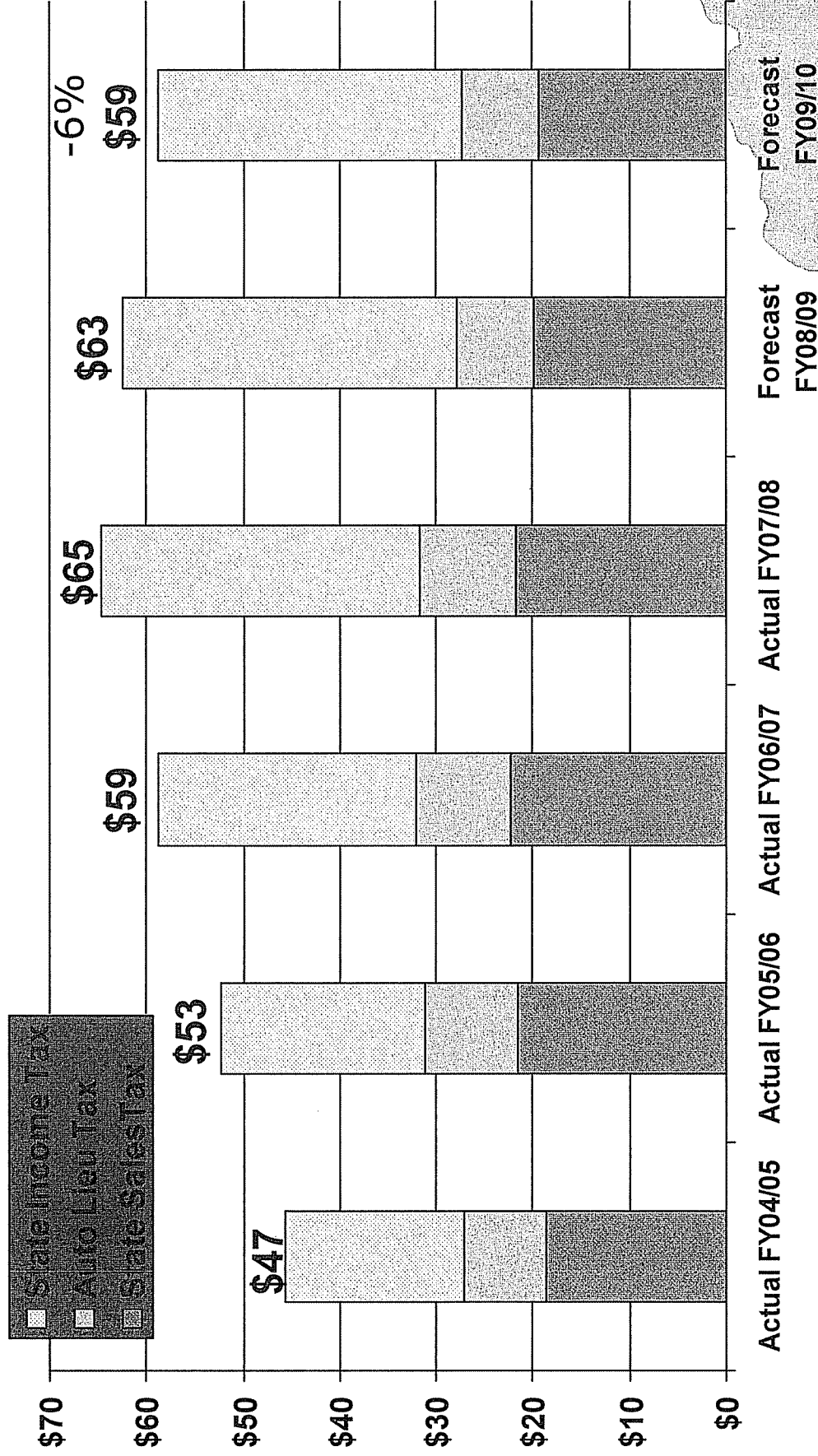
(in millions)



**Note: Secondary Property Tax is restricted to pay for voter approved bond debt service...and is receipted to the Debt Service Fund for these payments (not the General Fund).**

# State Shared Revenues

(in millions)

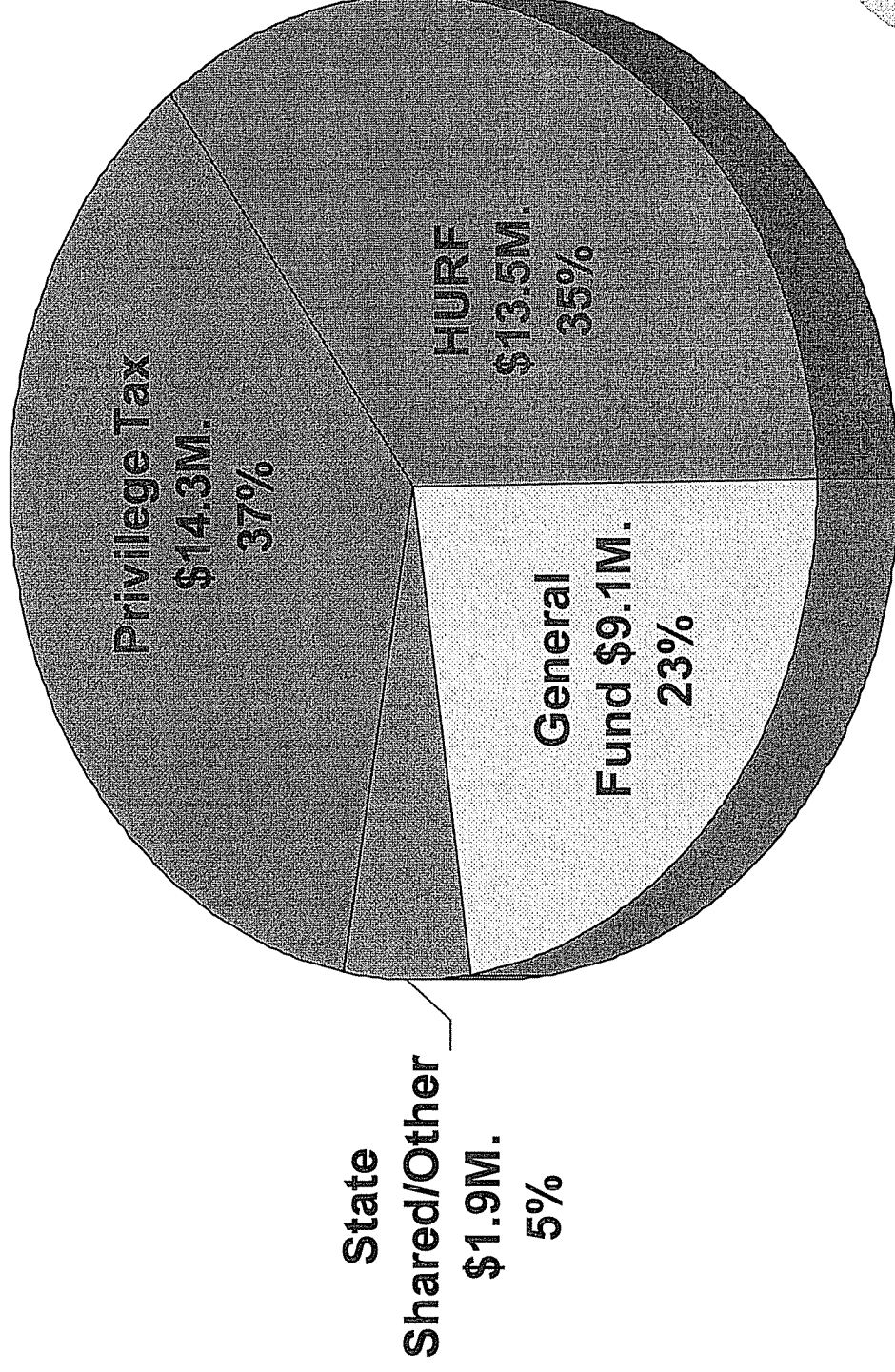


State Shared Revenues susceptible to legislative change...



# Transportation Fund

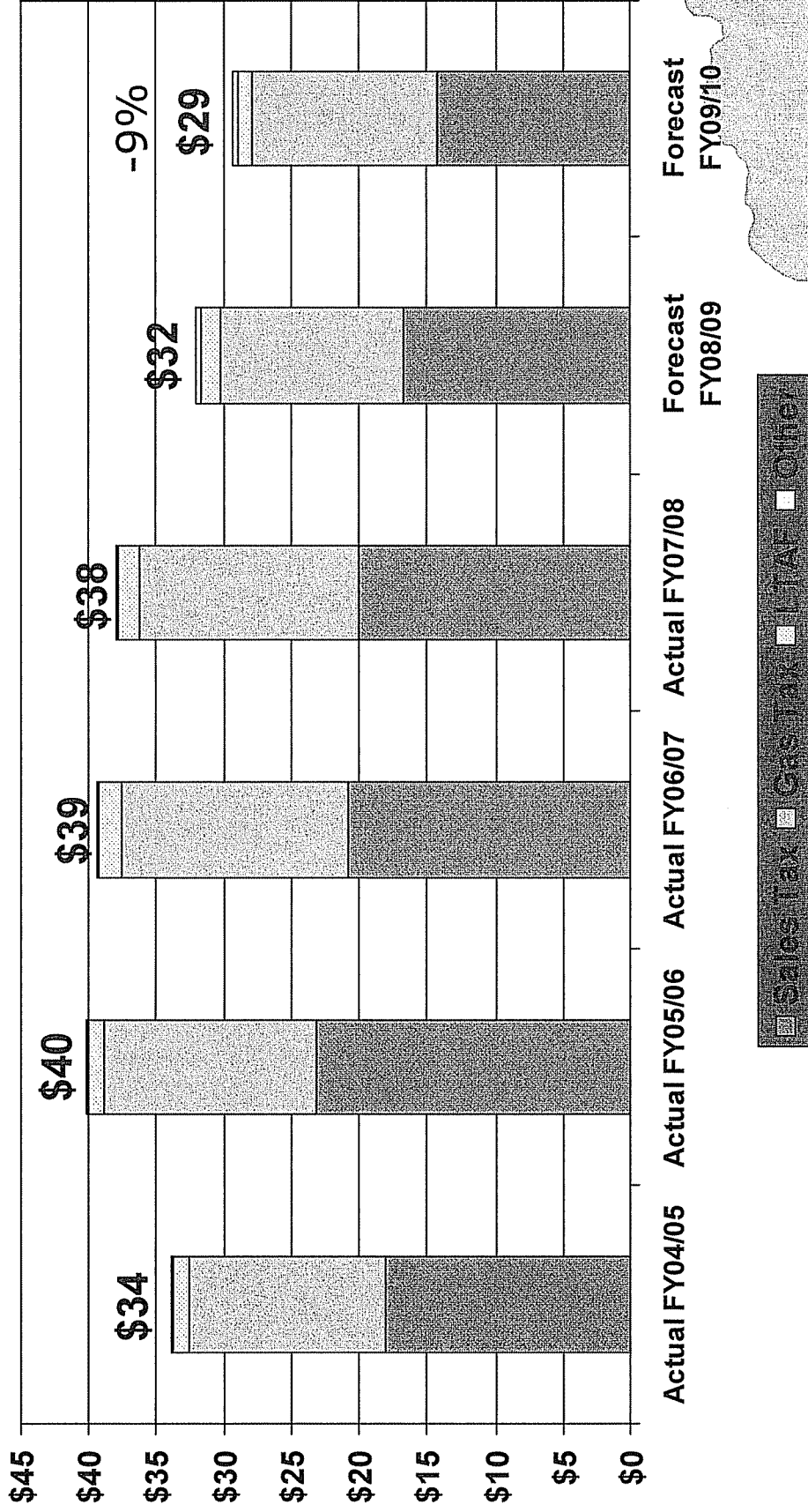
**\$39 M. Revenue FY 09/10 Forecast**



Nearly 100% of Transportation Fund revenues are "elastic" ... 17  
susceptible to economic change/recessionary forces.

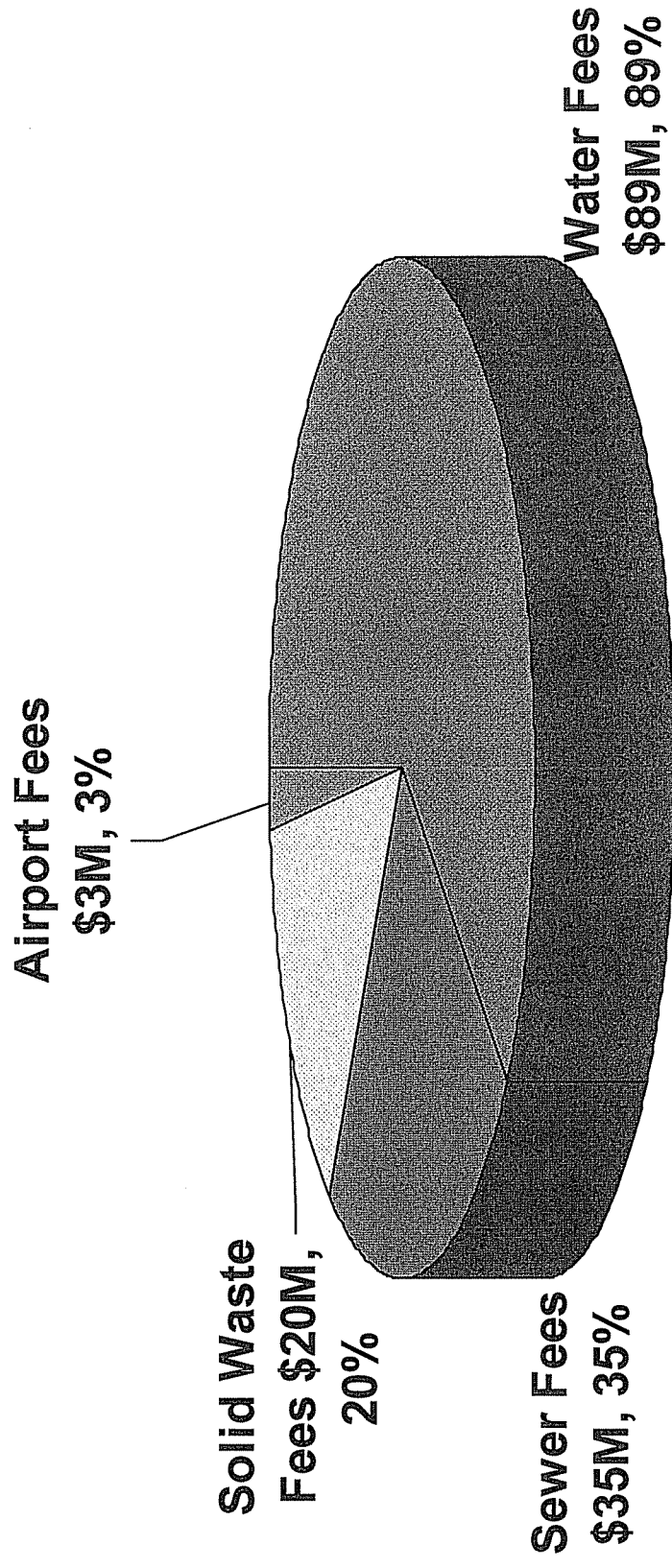
# Transportation Revenues

(in millions)



# Enterprise Fund (Utilities)

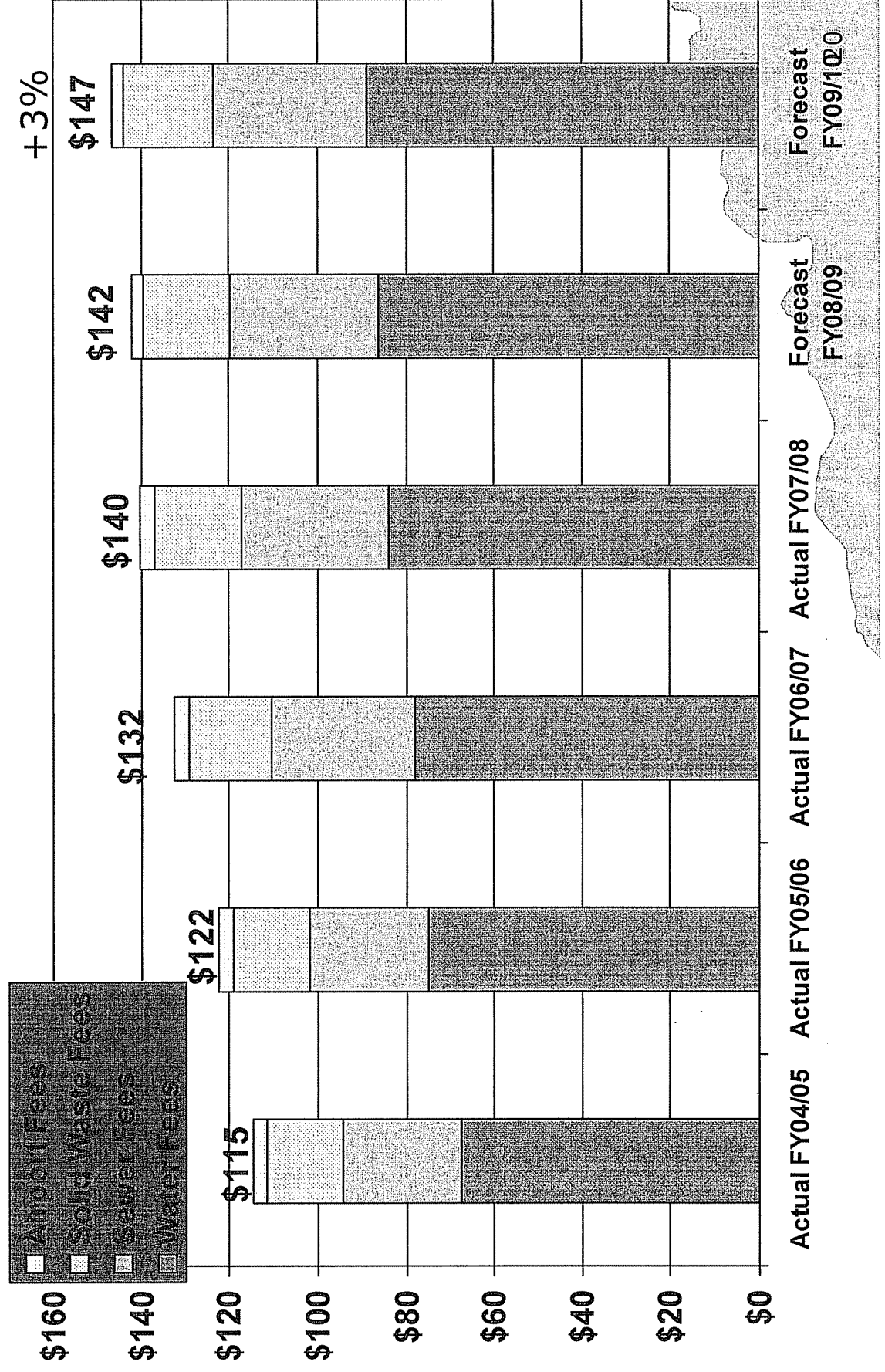
## \$147M. Revenues



Enterprise revenues are comprised principally of "user fees" (and no general taxation). The fees are based upon multi-year financial plans designed to cover 100% of the cost of operations and capital infrastructure improvements.

# Enterprise Revenues (Utilities)

(in millions)



# Budget Review Calendar

- ◆ March 19 Financial Policies & Revenues
- ◆ March 26 Capital Improvement Plan Budget
- ◆ April 2 Rates, Fees & Taxes
- ◆ April 7 Organizational Overview & Budget Intro
- ◆ April 20 Departmental/Program Budget Review
- ◆ April 23 Departmental/Program Budget Review
- ◆ April 27 Departmental/Program Budget Review
- ◆ April 30 Finalize Commission Recommendations
- ◆ May 5 Budget Review Commission Report to CC
- ◆ May 19 Public Budget Hearing & Tentative Adopt.
- ◆ June 2 Public Budget Hearing and Final Adopt.

**All meetings are at 5:00 p.m. in the City Hall Kiva, open to the public, and broadcast on City channel 11.**

# City of Scottsdale

## Budget Review Commission

3/19/09

